

Big Cypress National Preserve Acquisition of Collier Resources Mineral Rights

May 29, 2002

Q: What are the terms of the agreement Department of the Interior has reached with Collier Resources?

A: The Department has reached an agreement in principle with the Collier family to acquire the family's mineral rights in Big Cypress National Preserve, Panther National Wildlife Refuge, and Ten Thousand Islands National Wildlife Refuge for \$120 million. The Collier family is far and away the primary holder of the mineral rights in these areas. (Colliers own all or a portion of the oil and gas rights within 79% of the sections (1 mile square) within Collier County alone). With this acquisition, the Department will effectively preclude any further development of oil and gas within the Preserve.

Q: Where is Big Cypress National Preserve?

A: Big Cypress is located in southwestern Florida. It is located just to the north and west of Everglades National Park and is part of the larger Everglades ecosystem. Florida Panther National Wildlife Refuge and Ten Thousand Islands National Wildlife Refuge are located just to the east of Big Cypress. Together these three areas comprise over 765,000 acres of prime subtropical and estuarine habitat.

Q: How will the payments to the Colliers be made?

A: We are still working out the details of the acquisition, but our intent is to purchase the mineral rights with \$120 million in Congressionally-approved credits that the Collier family can use towards bids or royalty payments on offshore leases in the Outer Continental Shelf. These credits will be transferable so that the Collier family can sell them to third parties. (If we cannot structure a deal based on bidding credits, we will seek \$120 million from Congress for the acquisition). The Collier family believes that these oil and gas holdings are worth substantially more than the value derived from the MMS study. The agreement allows them to donate any excess value to the U.S. as determined by the IRS.

Q: Why use bidding credits for the acquisition?

A: Bidding credits will ensure that the agreement is energy neutral and consistent with the President's energy strategy. Although the mineral resources in the Preserve will not be developed, the revenues associated with the acquisition of those resources will be reinvested in environmentally responsible energy development.

Q: Why is the Department acquiring the Collier minerals rights? Isn't it true that the Collier family has no intention of drilling in Big Cypress?

A: Acquisition of the Collier family's mineral rights will ensure that the Preserve retains its recreational and wildlife habitat values. Thousands of visitors come to the Preserve every year to enjoy wildlife, hike, hunt, and ride swamp buggies. Without this acquisition, we believe that further development of oil in the Preserve would have been highly likely.

The Collier family has filed 27 plans of operation to conduct exploration and development activities in Big Cypress and Panther National Wildlife Refuge. Under the legislation that created Big Cypress, the Collier families retained their right to develop their mineral interests in the Preserve. While the National Park Service has promulgated regulations requiring the approval of oil and gas plans of operations based on the application of the best available technology, there is no right to refuse to allow these private property rights to be exercised without compensation.

In this case, the National Park Service recently released an environmental assessment on the first proposed plan of operation in January. A final decision on whether to allow further exploration was due to be issued shortly. The U.S. could only deny them a right to explore by purchasing their oil and gas interests.

Q: Will this Agreement affect existing oil production facilities in the Preserve?

A: No. There are two areas currently producing oil in the Preserve with a total of nine operating wells. These wells have been operating since 1972 at Bear Island and 1978 at Raccoon Point. These facilities will not be affected by the agreement.

Q: Do you intend to acquire the current oil and gas production within the Preserve.

A: No. The acquisition of the Collier mineral holdings is necessary primarily due to the potential impacts on the preserve and refuge resources that would result from the extensive exploratory activities proposed in their 26 plans of operations within the Preserve and 1 plan within the Florida Panther Refuge. The cumulative impacts from the infrastructure necessary for the exploration and development of the Collier family holdings are far greater than that represented by the existing development, most of which has been in place for years. Oil and gas development within the Preserve is not necessarily inappropriate, as Congress expressly recognized in the statutes which authorized the establishment of the Preserve in 1974 and its expansion in 1988.

Both the Clinton and Reagan Administrations also apparently considered acquiring

the oil and gas holdings of the Collier family. My understanding is that neither advocated nor sought to acquire the existing production.

Q: How much oil is under the Preserve?

A: MMS's mean estimate is that there are 40 million barrels of conventionally recoverable oil under the Preserve and Panther national Wildlife Refuge. Without extensive exploratory work that would damage the surface estate we wish to protect, it is not possible to better estimate the scope of the resource.

Q: How did the Minerals Management Service (MMS) determine the value of the mineral resources in the Big Cypress National Preserve?

A: Determining the value of the oil and gas resources in an area where there has been little or no actual exploration or development activity is challenging. MMS has considerable experience in making these sorts of evaluations as part of its responsibilities for valuing hydrocarbon (oil) resources on the Outer Continental Shelf as part of the lease sale process. That is why we tapped this expertise to help us value the Preserve's resources.

MMS used its Probabilistic Resource Estimates-Offshore (PRESTOV) model. The model basically simulates drilling the area under consideration. To perform this task, the model has two principal parts. The first is geologic information to determine the likelihood of whether oil exists and where it is located. The second is an engineering and economic analysis which includes the potential volumes of the oil and its value based on future price projections. The result of this modeling process is a range of potential oil values and a mean value.

Q: Is the estimate of the oil reserves in Big Cypress based only on MMS's estimates?

A: No. We retained an independent mineral valuation expert who confirmed that MMS' model was a reasonable methodology to determine a median value and that based on the limited data available, MMS' geologic and economic inputs also were reasonable. Our expert further assisted us in developing a range of values that a person would be willing to pay for the mineral resources in the Preserve based on the mean value of the resources developed under the model. To create this range, he used data from thousands of bids for offshore leases.

Q: Why were you now successful when your predecessors were not?

A: In part, it was a matter of good timing. Once Congress adopted the comprehensive plan for the restoration of the Everglades, we were able to focus attention on this acquisition, an action that complements Everglades restoration. Additionally, an agreement was not reached previously because of differences on the valuation of the Collier family holdings. Through our negotiations, we have come to agreement on a value for the Collier's holdings which is several hundred million dollars less than what they sought from the Department in 1996. While this remains a substantial acquisition, it is reasonable in light of the nature of the resource and in the context of the overall restoration effort that is ongoing in South Florida.

Q: Do you have plans for the acquisition of the oil and gas rights held by others since the Collier family only accounts for a portion of the total minerals ownership?

A: Not at this time. Most of the remaining mineral interests within the Preserve are held in relatively small parcels by numerous owners. My understanding is that the threat to the Preserve's resources is minimal at this time because development of such small holdings would likely be uneconomic. Moreover, under Florida law, oil and gas can only be developed if a majority of the mineral interests ownership in a 160 acre drilling unit consent. With the acquisition from the Colliers, the National Park Service believes that any threat to Preserve resources is remote. Should this situation change, the National Park Service would undoubtedly reconsider its present position and advise me accordingly.

Q: Isn't the Department being inconsistent in seeking the opening of the Arctic National Wildlife Refuge for exploratory drilling while finding that it is inappropriate in Florida?

A: No. The Collier's oil and gas holdings were valid existing rights that Congress recognized in the establishment of the Preserve and Refuge and the expansion of the Preserve. While the National Park Service has promulgated regulations requiring its approval of oil and gas plans of operations based on the application of the best available technology, there is no right to refuse to allow these private property rights to be exercised without compensation.

The situation within ANWR is quite different where the oil and gas rights are federally owned. The Administration's proposal was to permit exploration and development in only a very limited portion of the Refuge, as well as to control development there in a manner that will protect the surrounding environment. We have no comparable legal right to control to the same degree the private property rights of the Collier family. It is also the Administration's policy to consider the state's views on the development of federal oil and gas rights. As you are aware,

the State of Alaska has, on a bipartisan basis, strongly and repeatedly advocated the development of ANWR. The State of Florida has expressed somewhat different views in this regard which this Administration has respected. Lastly, the size of the potential reserves in the Refuge dwarf the Collier holdings and thus have strategic implications for the Nation which aren't presented by this acquisition.

Q: Now that an agreement in concept has been reached, what is the next step?

A: Lawyers for the Department and the Colliers will be completing an agreement, subject to our obtaining the necessary authority from Congress to proceed. The Administration intends to work closely with Congress to get that authority.

Q: Is legislation necessary to implement this agreement?

A: Yes. We look forward to working with Congress to authorize the use of credits to implement this agreement or, if the deal cannot be structured with credits, to identify appropriate sources of funding.